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FINANCIAL REPORT OF THE CZECHOSLOVAK MINISTER OF  
FINANCE FOR THE FIRST QUARTER OF 1949

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12 July 1950

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Report of the Minister of Finance on the Development  
of the Free Market in the Last Period

(copy)

Financial receipts and the situation of the state treasury in the first quarter of 1949 were influenced by the general tax.

Financial receipts (that is, tax receipts and <sup>proceeds</sup> ~~income~~ of the tobacco monopoly) developed favorably in the first quarter of this year in comparison with the budgetary estimate.

In analyzing the actual receipts we must distinguish between items which occur only once (extraordinary items) and permanent items.

Extraordinary items are those which will not be repeated in subsequent quarters. These consist on the one hand of additional payments of taxes replaced by the general tax, and on the other hand, of the general tax on supplies.

Additional payments of the tax on turnover and price equalization sums amounted to 5,123,100,000 crowns. Additional payments of indirect taxes and the luxury tax amounted 626,600,000 crowns. Proceeds from the general tax on supplies amounted to 1,461,500,000 crowns.

In all, extraordinary items of income represent a sum of 7.5 billion crowns. These sources of income will <sup>dry up</sup> ~~disappear~~ in subsequent quarters.

Permanent items consist mainly of proceeds from the current general tax, which began to appear in February 1949. These tax receipts will be subjected to a more detailed analysis later on.

The largest surpluses (in comparison with the budgetary twelfths) are shown by direct taxes: 1,322,100,000 crowns. There was a deficit [sic; see p. 8] in the tax on wages of 64,000,000 crowns; therefore the surplus for all other direct taxes was 1,386,100,000 crowns.

The surplus in comparison with the budget was caused mainly by payments of state enterprises on the special profit tax, which were

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concentrated in the first quarter. Income from this source will drop off considerably in subsequent months, as already indicated by the lower receipts for April.

Fees show a surplus of 274,900,000 crowns in comparison with the budget; this profitable trend is firm at the present time.

In customs there is a deficit of 109,300,000 crowns. Customs receipts are far below last year's, because goods being imported are primarily those with low duty (raw materials, machinery, etc.).

Financial monopolies (mainly the alcohol monopoly) show a deficit of 214,800,000 crowns compared to the budget. At the present time it is impossible to determine whether this is due merely to seasonal influences (which will be compensated for later in the year), or whether it is due to the high prices of liquors and the opportunities to purchase other items on the free market. The latter possibility appears plausible, because even the tobacco monopoly is short of the budgetary estimate by 71,500,000 crowns.

The general tax (regular -- not including the tax on supplies) yielded 10,700,100,000 crowns for the first quarter. This sum represents two monthly payments for January and February, which were collected in February and March.

In comparing the general tax yield with the budget, we deduct from the budgetary estimate of this tax for the whole year the estimate of the proceeds from the tax on supplies, that is, 1,750,000 crowns; we divide the remainder into 11 equal parts *(hand written: see)* (one-eleventh of 1,175,400,000 crowns), because this year we will receive installments only for the period <sup>from</sup> January to November. The installment for December will be counted as income for 1950.

Such a mechanical comparison indicates a surplus compared to the budget of 2,349,300,000 crowns in current taxes. In the case of the tax on supplies there was a deficit of 323,000,000 crowns at the end

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of March. Therefore the <sup>net</sup> surplus for the general tax, including the tax on supplies, is 2,026,100,000 <sup>[sic]</sup> crowns.

At present we <sup>lack</sup> more precise statistical data on the structure of the general tax according to types of goods, and we especially lack data broken down according to the free market and the rationed market.

According to rough data available to us, the structure of the general tax in the Czech Provinces is as follows (data for Slovakia are lacking):

(in millions of crowns and percentages)

	Jan 1949		Feb 1949		Mar 1949		Total	
		%		%		%		%
Food (free and rationed):	476.4	15.1	691.4	17.5	851.5	18.3	2,019.3	16.5
Textiles and ready-made clothing (free and rationed):	1,784.0	49.0	1,907.8	48.3	2,050.0	44.1	5,741.8	46.9
Chemicals (free and rationed, as far as mineral oils are concerned):	197.4	3.4	183.5	4.6	295.6	6.4	676.5	5.5
Total:	2,457.8	67.5	2,782.7	70.4	3,197.1	68.8	8,437.6	68.9
Other goods (including footwear on the free market):	1,185.2	32.5	1,168.7	29.6	1,452.0	31.2	3,805.9	31.1
Grand total:	3,643.0	100.0	3,951.4	100.0	4,649.1	100.0	12,243.5	100.0

It may be seen from this rough table that approximately two-thirds of the tax is paid for goods for which there is a free market in addition to the rationed market, and only one-third for other goods. Textiles and ready-made clothing have the largest share (almost one-half).

The sums given in the table represent the tax based on price, or the quantity of goods sold on rations in the given month. This tax is payable the following month; in those cases where the tax is paid in advance from daily earnings, the sum given in the table corresponds to the tax on achieved earnings.

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The sums actually paid as tax are lower because of the so-called deductions (on the tax on returned goods). In the tax installments for March (collected in April) the deductions were relatively high, and caused a temporary decline of about half a million crowns in tax yields. These deductions were partly due to the fact that, in the case of textiles, permission was granted to pay taxes according to earnings. <sup>Since</sup> the tax originally paid on all goods transferred to retail sale was higher than the tax on the goods actually sold, the difference was deducted from the payment for March.

In view of the above considerations concerning the development of tax receipts, it may be said that we must be cautious in evaluating the surpluses achieved in comparison with the budget. These surpluses have been determined by a mechanical calculation and not according to a <sup>reliable</sup> consumption plan. A change in consumption can have an unfavorable effect on the subsequent development of receipts.

The surpluses in the state treasury are to a considerable extent due to the extraordinary tax receipts of the first quarter and the good yield of the general tax.

The development of resources of the state treasury in free currencies has been as follows (in millions of crowns):

<u>Date</u>	<u>Prague</u>	<u>Bratislava</u>	<u>Total</u>
1 Jan 1949	46.4	114.7	161.1
30 Jan 1949	2,337.7	183.4	2,521.1
28 Feb 1949	7,743.1	1,009.3	8,752.4
31 Mar 1949	10,913.6	1,298.2	12,211.8
30 Apr 1949	11,479.9	1,445.7	12,925.6
14 May 1949	16,316.3	-	-
11 May 1949	-	2,091.1	-

It may be seen from these data that, in spite of its meager cash balance at the beginning of this year, the state treasury in January

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was able to cover all expenses from the above-mentioned extraordinary tax receipts. The treasury entered February with a considerable cash reserve, which rose sharply during the month and has been increasing since, although at a substantially slower tempo.

Gross expenditures of the state treasury (not including relations with state-operated enterprises) have been as follows, in millions of crowns:

<u>Month</u>	<u>Prague</u>	<u>Bratislava</u>
January 1949	6,223.7	1,651.7
February 1949	3,989.6	1,148.6
March 1949	7,071.4	1,441.0
Total	17,284.7	4,241.3

Total receipts of the Central State Treasury in Prague and the State Treasury in Bratislava for the period from January to March amounted to 35,341,100,000 crowns. Total expenditures, including the balance of relations with state-operated enterprises, amounted to 23,409,900,000 crowns. Therefore the surplus of receipts over expenditures in the three-month period was 11,931,200,000 crowns. To this surplus we must add the initial treasury cash balance as of 1 January 1949 of 161,100,000 crowns, and the difference ~~resulting~~ of ~~from~~ 119,500,000 crowns resulting from various treasury transactions, including the profit from the sale of valuable papers. This results in a total sum of 12,211,800,000 crowns, which corresponds to the treasury cash balance as of 31 March 1949, which has been given above.

This treasury surplus is made up of the following items:

(in millions of crowns)

Surplus of financial receipts over the budget (details in separate table):	4,296.5
Proceeds from the Christmas package program:	1,584.2
Transfer from the proceeds of millionaire taxes:	100.1

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Receipts from the UNRRA program:	220.8
Surplus of administrative receipts (over the budget of prices):	1,500.0
Total of surpluses in receipts:	7,701.6
Savings in expenditures:	4,510.2
Total	12,211.8

The above figures on treasury receipts and expenditures include all gross receipts and expenditures of the state treasury, including non-budget income and including sums paid in 1949 on the basis of the budget for 1948 (Two-Year Plan investments). These receipts and expenditures, therefore, cannot be compared directly with the budgetary estimates for 1949, and one cannot obtain from them an absolutely exact picture of the budget economy corresponding to the items given. Nevertheless, the data given provide a rather reliable picture of the direction of development of our national economy.

A more detailed analysis of expenditures reveals that expenses for purposes other than wages, pensions, and service of debts have not been fully developed, and that they were low especially in February in the Czech Provinces and Slovakia. This was evidently caused by the fact that the provincial national committees had ceased to make themselves felt in the realm of expenditures, whereas the kraj and okres national committees were in the initial stage of their organization; even today they are not fully functioning from the economic standpoint.

More evidence, which is gradually being acquired, is needed in order to judge the further development of expenditures.

On 1 January 1949 the Ministry of Finance took over the management of state accounting from the Supreme Accounting Control Office; bases for the analysis of state expenditures will gradually appear through the introduction of new comparative methods. The new budgetary plan is also helping to make this possible.

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The acquisition of all required data will be difficult this year, because the right to ~~issue instructions~~ <sup>disburse funds</sup> formerly concentrated in a few central and provincial offices, has been decentralized to the kraj and okrees; this will probably result in a time schedule for ~~expenditures~~ <sup>expenditures</sup> which is <sup>somewhat</sup> at variance with the previous experiences of the Ministry of Finance, which are founded only on the management of treasury receipts and expenditures.

In spite of these difficulties, however, it may be confidently said that state expenditures will increase in the coming months. This will be due on the one hand to the fact that the economic activities of the national committees will be steadily intensified, and on the hand to the fact that expenditures for investments (particularly construction investments) will not be activated until the third quarter and especially the fourth quarter. Investment expenditures could not be effected at all in the period of winter at the beginning of the year. The construction season does not begin until spring, and the larger demands on investment items of the state budget will appear even later, when the construction accounts are paid off.

The considerable cash balances in the state treasury, as enumerated above, are also caused by the different time system for construction expenditures and state receipts. Moreover, state receipts in the first quarter of this year were exceptionally high because of the extraordinary payments on abolished taxes and the yield from the general tax on supplies, which is based economically on the year 1948.

16 May 1949

(signed) Kabes,

Minister of Finance

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Enumeration of Surpluses of Financial Receipts in Comparison

With the Budget

First Quarter of 1949

(in millions of crowns)

Tax on wages	-	44.0 [sic; see p. 1]
Other <del>direct</del> taxes	+	1,386.1
Tax on turnover	+	618.8
Indirect taxes	+	22.2
Fees	+	274.9
Customs	-	109.3
General tax on supplies	-	323.0
Current general tax	+	2,349.3
Monopolies	-	214.8
Fines	+	66.9
Price equalization sums	+	24.3
Luxury tax	+	336.6
Tobacco monopoly	-	71.5
Total surpluses	+	5,079.1
Total deficits	-	762.6
Net surplus	+	4,296.5 [sic]

20 May 1949

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